

VZCZCXYZ0000
RR RUEHWEB

DE RUEHBU #1573/01 1981243
ZNR UUUUU ZZH
R 171243Z JUL 06
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC 5230
INFO RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/USDOC WASHDC
RUEHRC/USDA FAS WASHDC 2239
RUEHC/DEPT OF LABOR WASHDC
RHMFISS/HQ USSOUTHCOM MIAMI FL
RUEHAC/AMEMBASSY ASUNCION 5613
RUEHMN/AMEMBASSY MONTEVIDEO 5685
RUEHSG/AMEMBASSY SANTIAGO 5219
RUEHBR/AMEMBASSY BRASILIA 5410
RUEHSO/AMCONSUL SAO PAULO 2941
RUEHRI/AMCONSUL RIO DE JANEIRO 2022

UNCLAS BUENOS AIRES 001573

SIPDIS

PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE
OPIC FOR GEORGE SCHULTZ AND RUTH ANN NICASTRI
PASS USTR FOR LESLIE YANG
TREASURY FOR RAMIN TOLOUI AND CHRIS KUSHLIS AND OCC FOR CARLOS
HERNANDEZ
USDOC FOR ALEXANDER PREACHER
USDOL FOR ILAB PAULA CHURCH AND ROBERT WHOLEY
SOUTHCOM FOR POLAD AND J5 FOR JUAN RENTA

SIPDIS

E.O. 12958: N/A
TAGS: [EFIN](#) [ECON](#) [ELAB](#) [ETRD](#) [ALOW](#) [AR](#)
SUBJECT: JUNE 2006 INFLATION UPDATE AND PREDICTIONS

SUMMARY

¶1. The Consumer Price Index (CPI) rose 0.5 percent in June, bringing the 12-month inflation rate to 11 percent. Average nominal salaries increased 1.5 percent in May and the purchasing power of salaried workers in May 2006 was 5.2 percent higher than in May ¶2005. According to the BCRA's last survey of market expectations published on June, INDEC's CPI inflation is expected to be 0.9 percent in July, and 11.5 percent in 2006. The large amount of goods and services that are subject to GOA controls or "voluntary" price agreements makes it very likely that observed inflation as measured by the INDEC, the official bureau of statistics, diverges from actual inflation. This could result in lower inflation expectations in the short run. However, it will not be sufficient to counteract economic policies that fuel aggregate demand in order to achieve high GDP growth rates.

THE CONSUMER PRICE INDEX

¶2. The official Consumer Price Index (CPI) was 0.5 percent higher in June 2006 than in May 2006, below the 0.7 percent predicted by the Central Bank's (BCRA) consensus forecast. June inflation brought 12-month inflation to 11 percent. Prices of Goods increased 0.4 percent and Prices of Services increased 0.6 percent in June. Prices of seasonal goods increased by 0.4 percent, regulated prices increased 0.2 percent, and the rest, which constitutes INDEC's "core inflation" but also includes prices that are controlled or agreed-upon with the GOA, increased 0.6 percent in June. Core inflation was 12.2 percent between June 2005 and June 2006. The official CPI measures inflation only in the Greater Buenos Aires urban area.

¶3. Housing and Basic Housing Services, Home Maintenance and Equipment, and Food and Beverages were the three CPI components with the highest monthly price rises in June, increasing 0.8 percent, 0.7

percent and 0.5 percent, respectively. Education was the CPI component that increased the most between June 2005 and June 2006, posting a 16.9 percent increase. Education was followed by Clothing, which rose 16.2 percent, and Food and Beverages, which increased 13 percent.

TABLE I
CONSUMER PRICE INDEX (1999 = 100)

CPI YEAR	PCT CHG PREV YR	CORE INFLATION PCT CH PREV YR
2001	-1.5	n.a.
2002	41.0	n.a.
2003	3.7	n.a.
2004	6.1	6.4
2005	12.3	14.2

CPI YEAR	PCT CHG PREV MO	CORE INFLATION PCT CH PREV MO
----------	--------------------	----------------------------------

2005		
JAN	1.5	1.1
FEB		1.0
MAR	1.5	2.2
APR	0.5	0.8
MAY	0.6	0.6
JUN	0.9	1.1
JUL	1.0	1.0
AUG	0.4	0.9
SEP	1.2	0.9
OCT	0.8	0.7
NOV	1.2	1.4
DEC	1.1	1.4

2006		
JAN		1.3
FEB	0.4	0.7
MAR	1.2	1.7
APR	1.0	0.9
MAY	0.5	0.7
JUN	0.5	0.6

Source: National Bureau of Statistics and Census (INDEC).

POVERTY AND DESTITUTION LEVELS

14. INDEC publishes a monthly estimate of the value of a "total consumption basket" and a "food consumption basket." These baskets are based on estimates of the minimum nutritional requirements and other consumption habits of people of different ages. These estimates determine the official poverty line and the official destitution line, respectively. For a family of four in June, the poverty line was ARP 856.86 (USD 278) and the destitution line was ARP 391.26 (USD 127). A family of four is defined as a man and a woman in their thirties, an eight-year-old girl and a five-year-old boy.

15. The peso value of the poverty line increased 0.5 percent in June, and rose 10.1 percent in the June 2005 - June 2006 period. The peso value of the destitution line did not change in June, and rose 10.6 percent in the June 2005-June 2006 period.

16. The percentage of people living below the poverty line was 33.8 percent in the 28 most important urban areas of Argentina in the second half of 2005. The percentage of the poor was 38.5 in the first half of 2005, and 40.2 percent in the second half of 2004. The percentage of people living below the destitution line was 12.2 percent in the 28 most important urban areas in the second half of 2005. The percentage of the destitute was 13.8 percent in the first half of 2005, and 15.0 percent in the second half of 2004.

AVERAGE NOMINAL SALARIES

¶7. INDEC estimated that average nominal salaries increased 1.53 percent in May 2006 over April 2006. Inflation was 0.5 percent during that period. The average nominal salary increase in May was due to increases of 1.6, 1.8 and 1.1 percent in formal private sector, informal private sector, and public sector salaries, respectively. Public sector salaries include salaries of both federal and provincial employees.

¶8. Average nominal salaries grew by 17.3 percent between May 2005 and May 2006. This growth was due to increases of 21.2, 16.8 and 8.4 percent in formal private sector, informal private sector and public sector salaries, respectively. Inflation in the same period was 11.5 percent. Therefore, on average, the purchasing power of the average salaried worker in May 2006 was 5.2 percent higher than it was in May 2005. Both formal and informal private sector salaries had significant gains in purchasing power of 8.6 and 4.8 percent, respectively. However, public sector salaries experienced a 2.7 percent decline.

WHOLESALE PRICE INDEXES

¶9. The Wholesale Price Index (IPIM) increased 0.8 percent during June 2006, bringing the total IPIM increase since June 2005 to 12 percent. This index measures the price changes of national products (including Primary Products and Manufactured Goods and Electric Power) and imports sold in the domestic market. The IPIM also includes taxes. The 0.8 percent increase in June was due to a 0.3 percent decline in Primary Product prices and a 1.0 percent increase in Manufactured Goods. The decline in Primary Products was largely the result of a 7.6 percent decline in Fish Products prices, and a 2.2 percent decline in Agricultural prices. Electric Power and Import prices increased 2.5 and 2.4 percent, respectively.

¶10. The Wholesale Basic Prices Index (IPIB) has the same coverage as the IPIM, except that it excludes taxes. The IPIB increased 0.8 percent in June, bringing the total IPIB increase since June 2005 to 12.4 percent. The 0.8 percent increase in June was due to a 0.4 percent decline in Primary Product prices and a 1.1 percent increase in Manufactured Goods. Electric Power prices increased 2.5 percent. Import prices increased 2.4 percent.

¶11. The prices for the sectors measured in the IPIM and IPIB are weighted using the corresponding value of product net of exports. INDEC has devised another index, the Basic Prices to Producers Index (IPP), whose weights are calculated considering sales in the internal market as much as sales to the external market and excluding imports and taxes. The IPP increased 0.6 percent in June 2006, bringing the total IPP increase since June 2005 to 12.4 percent. Primary Products decreased 0.4 percent and Manufactured Goods increased 1 percent. Electric Power prices increased 2.5 percent.

CONSTRUCTION COSTS

¶12. The INDEC index measuring private housing construction costs in Greater Buenos Aires increased 1.6 percent in June. These costs were 21.2 percent higher than in June 2005. The June increase is the result of a 1.0 percent increase in materials, a 2.3 percent rise in labor costs, and a 1.7 percent increase in other construction costs. Wages of salaried employees working for the sector increased 2.6 percent and payments to the self-employed grew 1.6 percent. Professional fees are not included among the labor costs considered by INDEC in the construction sector.

INFLATION PREDICTIONS FOR 2006

¶13. The GOA's national budget includes a 9.1 percent inflation forecast for 2006. The BCRA monetary program for 2006 announced on December 29, 2005, established an inflation target of between 8-11 percent for 2006. According to the BCRA's last survey of market expectations published on June, INDEC's CPI inflation is expected to

be 0.9 percent in July, and 11.5 percent in 2006.

¶14. The Hugo Haime survey of inflation expectations of people older than 18 years old, concluded that there was a deceleration in inflation expectations in June 2006 over the previous month. Only 11 percent of the sample anticipates further price increases for June. This survey also shows that Food and Beverages, and Clothing are the two CPI components whose prices are expected to grow most.

¶15. Macrovision Consulting showed that some 58 percent of the goods and services included in the INDEC's CPI were somehow controlled, agreed-upon or regulated by the GOA. This firm forecasts a 16.2 percent inflation in 2006 for the group of prices that are not affected by GOA actions or agreements.

COMMENT

¶16. The large and growing number of goods and services that are subject to GOA controls or "voluntary" price agreements makes it likely that observed inflation as measured by INDEC's CPI diverges from real inflation. A lower-than-real observed inflation could explain lower inflation expectations in the short run. However, lower expectations will not be sufficient to counteract economic policies that stimulate aggregate demand through fiscal, monetary and income measures in order to obtain high GDP growth rates.

¶17. To see more Buenos Aires reporting, visit our classified website at: <http://www.state.sgov.gov/p/wha/buenosaires>

GUTIERREZ